

**THE IMPACT OF NEW REGIONALISM ON THE
PROCESS OF GLOBALISATION**

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CERTIFICATE

This is to certify that the dissertation “The Impact of New Regionalism on the Process of Globalisation”, submitted by **KETKAR PRAFULLA PRADEEP** in partial fulfillment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY** is his original work and has not been submitted for the award of any other degree of this or any other University.

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Aai and Baba

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Chapter 1
Introduction

Chapter 1

Introduction

The last decade of the twentieth century has set many radical changes for the twenty-first century. The process of political regionalisation and economic globalisation are fundamental in this global structural transformation. They not only affect the functioning of the Westphalian nation-state system, but also provide a framework for a possible (emerging) world order. Though the process of regionalisation and globalisation are not recent, they have acquired new dimensions in the 1990s. Therefore, the proposed research seeks to understand the impact of the 'new regionalism' on the 'new globalism', generally known as the process of 'globalisation'.

The process of new regionalism is conceived by different sources like the Organisation of Economic Cooperation and Development (OECD), World Trade Organisation (WTO) and Forum on Debt and Development (FONDAD). Bjorn Hettne of the UNU/WIDER Research Project on new regionalism has provided an acceptable definition.¹ He defines new regionalism as a multidimensional process of regional integration, which includes economic, political, social and cultural aspects. The definition implies two things about new regionalism. Firstly, that it is different from the 'old' regionalism in its context,

¹ Bjorn Hettne, Andras Inotai and Osvaldo Sunkel (eds.), *Globalism and the New Regionalism* (London: Macmillan, 1999)

source and goals; and secondly, besides visible trade related aspects, other economic and political, cultural dimensions are also important.

The process of globalisation is also defined in various ways, depending on the academic discipline and the school of thought. Besides some differences, globalisation is regarded as freer flows of information, goods, services, capital, technology and values, at the global level. That the process was strengthened by the end of the Cold War, formation of the trade liberalisation regime and the revolution in the information technology, is also a well-accepted fact.

There is a debate among scholars concerning the impact of new regionalism on the process of globalisation. The focus of the discussion is on whether new regionalism is a step in the path towards globalisation or whether it hinders the latter process. It is sometimes argued that regionalism is a quicker, more efficient path, in fact a prerequisite for effective global multilateralism. Scholars like Robert Lawrence and P.S. Mistry have this optimistic view. On the other hand, scholars like Jagdish Bhagwati and Joseph Nye look upon regionalism as a threat to multilateralism. These observers draw their conclusion on the basis of the experience of the inter-war period (1930s) representing a peak in the protectionist movement of the modern trade system. The contemporary regional initiatives are considered as a competitive threat to multilateral objectives from this viewpoint.

In the context of this debate, this research dissertation seeks to understand the impact of new regionalism on the process of globalisation.

LITERATURE REVIEW

The politics and economics of regionalisation and globalisation in general, and the impact of regionalism on globalisation in particular is already examined by various scholars. Some important works are worth reviewing before following our line of investigation. This review will help not only to understand the contentious positions on the study but also to construct the argument of the further study.

Robert Lawrence examines the current trend of regional trade blocks and their effects on the global economy, after reviewing the contending positions on the issue.² Firstly, the author analyses the position of the defenders of multilateralism: that the new regional initiatives could enhance protectionism and lead to a new round of trade wars. In the second part, he has explained the positive effects of regional arrangements on the globalisation process. These include stimulated growth, lowering external barriers and liberalising motivational forces. In conclusion, Lawrence has a qualified optimistic viewpoint regarding regionalism. According to him, the successful round of multilateral negotiations at Uruguay has curtailed the possibilities of protectionist responses and, therefore,

² Robert Lawrence, "Emerging Regional Arrangements: Building Blocks or Stumbling Blocks?", in Jeffery Frieden A. and David A. Lake (eds.), *International Political Economy – Perspectives on Global Power and Wealth*, Routledge, London, 1995, pp. 407-415.

regional arrangements will reinforce the movement towards integrated global economy.

Richard Higgott argues that regionalisation intersects globalisation, and therefore that one cannot be understood in the absence of the other.³ In the first part of this paper, the author explains the various understandings of globalisation. After that, as an important dimension of the evolving world order, he conceives the trend towards regionalisation as an intermediary and mitigating stage between state and the globalising economy. He rejects the perceived dangers of block formations and trade wars. With the experiences of the Asia Pacific and Europe, he explains how regionalisation has been trade enhancing rather than trade restricting. In this sense, regionalisation is a manifestation of globalisation in terms of manageable political units. It means that the states opt for regionalism to keep the control over political and economic matters in the era of globalisation.

Glenn Hook and Ian Kearns have sought to bring together case studies of sub-regionalist projects in different parts of the world, with a different theoretical perspective. The approach seeks to bring together insights from 'hard' (security centric) and 'soft' (economy centric) explanations of regionalism.⁴ It also highlights the role of the state as well as of non-state actors in this process. The argument is premised on a distinction between regionalism, a project promoted by

³ Richard Higgott, in his *Globalisation and Regionalisation: New Trends in World Politics* (UAE: Emirates Centre for Strategic Studies and Research, 1998).

⁴ Glenn Hook and Ian Kearns (eds.), *The Political Economy of Sub-regionalism and World Order* (London: Macmillan, 1999).

states and regionalisation, the process driven forward by markets. The weaker states have, through the creation of regional institutions, been coping with the globalisation. This is demonstrated in the book through various case studies. The main emphasis of the book is to understand the process of redrawing boundaries through the complementary processes of regionalisation and globalisation.

Andrew Gamble and Anthony Payne have made a pioneering attempt in combining various theoretical approaches with different cases of regional integration in the three core regions, that is America, Europe and East Asia.⁵ The process of globalisation and regionalisation is viewed as being the result of the end of the Cold War. Here, regionalism is seen as something being constantly constructed and reconstructed, by collective human action. This volume addresses some questions regarding these complexities. The basic among them are the extent of states responses to the end of U.S. hegemony in terms of regionalist projects, the patterns of these regionalist projects and the social and political forces within regional arrangements. Answering the question regarding the impact of regionalism on the future world order, the authors conclude that although the trend of regionalism has the potential to conflict with the trend of globalisation, it would not do so because of the nature of increasing regional interdependence.

Bjorn Hettne tries to speculate about the emerging world order by asking some basic questions about globalism, regionalism and their impact on the

⁵ Andrew Gamble and Anthony Payne (eds.), *Regionalism and World Order*, (London: Macmillan, 1996).

future world order.⁶ He argues that the new world order will be regionalised one. According to him, the regional arrangements are emerging as a response to safeguard the principles of organised society, e.g. territory, civic norms, cultural values and security. For him the two processes, regionalisation and globalisation, are part of the same larger process of the global structural transformation. He predicts that the outcome of the emerging world order will depend on a dialectical rather than linear relationship between these two processes.

Jagdish Bhagwati, being a committed multilateralist, considers regionalism as a threat to multilateralism.⁷ He defines regionalism as “preferential trade agreements between a subset of nations”. According to him, the course of world trade has been characterised by movements to and away from free trade. He exemplified the protectionist periods of the 1930s and the 1960s, which were also associated with the process of regionalisation. Evoking the same logic, he argues that after the Uruguay Round of negotiations, protectionism in the form of regionalism would proceed. He even predicts that although the world would move towards a near free-trade position, the continued agricultural protectionism in the developed countries and the continued industrial protectionism in the less developed countries would be major departures from this. He concluded that

⁶ Bjorn Hettne, “Globalism, Regionalism and the Third World”, in *Redefining the Third World*, edited by Lloyd, Pettiford, and Nana Poku (eds.), (Basingstoke: Macmillan, 1998) pp. 69-87.

⁷ Jagdish Bhagwati, “Departures from Multilateralism- Regionalism and Aggressive Unilateralism”, *The Economic Journal*, vol.100, Dec. 1990, pp.1304 -1317.

regionalisation, whether intended or not, is trade diverting, and therefore a danger to global multilateralism.

However, Ralph Pettman questions the logic of dichotomising the processes of globalisation and regionalisation.⁸ On the basis of post-modernist understanding, he argues that counterposing globalism and regionalism is not only inappropriate but also a self-defeating assumption. Further, he explains that we are going straight to globalism from statism, and that regionalism is “neither a stepping stone nor a stumbling block” in this regard. Therefore, he considers dichotomising regionalism and globalism as irrelevant. For him, the limits and costs of such an exercise is very high, because it hinders our understanding of the historical proximity and highly politicised character of the practices involved. This stand is radical in comparison to conventional positions on the issue.

Percy Mistry analyses the nature of the new regionalism, the emerging trends in global economic interactions and the conditions under which the new regionalism is likely to facilitate rather than hinder the emergence of a new multilateralism.⁹ According to him, the new regionalism is totally different from the old one because of its greater porosity of interaction between the region and the rest of the world, and the greater importance of economic and political-security dimensions relative to visible trade related dimensions. Further, he points out certain deficiencies in the prevailing multilateralism in terms of the U.S.

⁸ Ralph Pettman, “Globalism and Regionalism - The Costs of Dichotomising”, in Bjorn Hettne et. al., op. cit., pp. 181-202.

⁹ Percy Mistry in Hettne et. al., op. cit., pp. 116-154.

hegemony over the multilateral institutions and the vested interests involved in the functioning of the World Bank and the IMF. In this context, the conditions have paved the way for faster growth of production and transactions between the North and the South. This trend would make the new regionalism not only conducive but also a prerequisite for the emergence of more functional and useful models of multilateralism.

Thus, the various writings on new regionalism consider it either as a promoter of, or as an obstructor to, the process of globalisation. Some authors even consider these two processes totally irrelevant to each other. Departing from these positions, the proposed research hypothesises that new regionalism moderates the process of globalisation rather than either promoting or obstructing the latter. This hypothesis proposes that it is difficult to make sweeping remark about the impact of new regionalism on the process of globalisation. At the most it can be argued that globalisation is moderated by new regionalism. It means new regionalism judiciously intervenes in and cautiously restrains the globalisation process. This research therefore seeks to address two questions: What are new regionalism and globalisation? What is the impact of new regionalism on the process of globalisation?

Organisation of the Dissertation

In conceiving the present world order and perceiving the future world order, the transnational processes of regionalisation and globalisation are

fundamental. This research is an attempt to understand and analyse one of the important debates, regionalism versus multilateralism, in this regard. The Introduction sets the context and relevance of the study. It also elaborates on the hypothesis and research methods on the basis of which this research is carried out.

The second chapter, “New Regionalism: Meaning and Nature”, explains some important concepts related to regionalism in international politics. After exploring the history of the evolution of regionalism, this chapter makes a distinction between the old and the new regionalism.

Chapter three entitled, “Globalisation: Structures and Processes”, reviews the evolution of globalisation. It also highlights the distinguishing features of contemporary globalisation, after explaining the various understandings of the globalisation process.

“New Regionalism: Promoter or Obstructor of Globalisation?” is the title of the fourth chapter, which evaluates the impact of new regionalism on the process of globalisation. After considering the conflicting viewpoints on the subject, in this chapter, an attempt is made to establish a new correlation between regionalisation and globalisation.

The Concluding chapter summarises the argument made in the study. The limitations of prevailing studies are pointed out in this chapter. Later, it raises new questions about the interrelationship between regionalisation and globalisation. This part of the study also explains how far the proposition made for the study is verified.

Chapter 2

New Regionalism: Meaning and Nature

Chapter 2

New Regionalism: Meaning and Nature

The history of regional cooperation or regionalism is “as old as recorded efforts to achieve the peaceful unification of sovereign entities...”¹. But the trend of regionalism that emerged in the 1990's, known as new regionalism, is different from all earlier efforts. It has a great potential to influence the present national state system and, in a way, the emerging world order. What is ‘new’ in this regionalism? What are the underlying reasons for this renewed form of regionalism? And what are the implications of this renewed regionalism for international relations? These are some of the pertinent questions that this chapter seeks to address. For understanding the meaning and nature of new regionalism some concepts and theories related to regionalism have to be discussed.

Region, Regionalisation and Regionalism

‘Region’ is a frequently used concept in political discussions. At the domestic level a region is generally defined in either constitutional or administrative terms. But in the international arena, to define the concept of region is a difficult task mainly for two reasons. Firstly, the international regions are perceived with different dimensions such as geographic, strategic, political, economic and cultural. Secondly, the regions and their constituted areas are constantly contested by various states. The debate on the status of Asia-Pacific as

¹ *International Encyclopedia of Social Sciences*, Vol.13, (New York: Macmillan, 1968), p. 378.

a region is the best example of this problem. "Regions in this sense are not 'given' neither are they formal organisations rather they are created and recreated in the process of global transformation".²

The scholars of international politics started taking interest in regions after the end of the Second World War. Since then they have defined region from various perspectives. Therefore, in regional analyses various interchangeable terms have evolved for explaining regions in international politics. Important among these terms are 'subordinate system', 'regional subsystem', and 'international subsystem'.

Louis Cantori and Steven Spiegel describe the 'regional subsystem' as one which consists of "one state or of two or more proximate interacting states which have some common ethnic, linguistic, cultural, social and historical bonds and whose sense of identity is sometimes increased by the actions and attitudes of states external to the system".³

Bruce Russett has listed 'geographical proximity', social and cultural homogeneity', 'shared political attitudes and behaviour', 'political interdependence in the form of shared institutional membership', and 'economic interdependence' as the basic characteristics of a regional subsystem.⁴

² Bjorn Hettne, Andras Inotai and Osvaldo Sunkel (eds.), *Globalism and the New Regionalism* (London: Macmillan, 1999), pp. xv- xvi.

³ Louis Cantori and Steve Spiegel (eds.), *The International Politics of Regions: A Comparative Approach* (New Jersey: Prentice Hall, 1970) pp.6-7.

⁴ Bruce Russett, *International Regions and the International System* (Chicago: Rand McNally, 1967).

According to Barry Buzan, 'geographical adjacency', 'shared characteristics', 'patterned interactions', and 'shared perceptions' are the marked features of the international subsystem called 'region'.⁵

An explicit definition of a region is provided by the *International Encyclopedia of the Social Sciences*: "a region may consist of a group of states possessing a common culture, common political interests and often a formal organisation.... Regions can be thus regarded as building block, making of the structure of the larger socio-cultural area than the nation".⁶

These definitions of region show the complexity of the term. As a common denominator, we can accept that a region is characterised by interaction among two or more state but not up to the extent of the whole international system. The constituent members are generally adjacent states that cooperate with each other for achieving certain objective. The interaction within a region is influenced by common interests- social, political or economic- or common external threats. A region consists of various states and non-state actors. The state actors consist of a hegemon or aspiring hegemon, a bargainer, peripheral dependants and external challengers.⁷ The cultural, industrial, educational and other social groups function as the non-state actors. Within a region, some states

⁵ Barry Buzan, "The Asia-Pacific- What sort of Region in what sort of World?" in *Asia-Pacific in the New World Order* by Anthony McGrew and Christopher Brook (eds.) (New York: Routledge, 1998), pp. 68-74.

⁶ *International Encyclopedia of Social Science*, op. cit., p.378.

⁷ Robert G. Blanton, *Defining the New World Order- Economic Regions, and Patterns of Global Cooperation* (New York: Garland, 1998). pp. 3-25.

also cooperate at the sub-regional level, especially to balance the capabilities of the hegemon. These actors determine the “regionness- the structural position of a region in terms of regional coherence”.⁸ Therefore a region can have more regionness than another region. This regionness depends upon five generalised levels. These levels of regionness are ‘geographical unit’, ‘social system’, ‘transnational cooperation’, ‘regional civil society with an enduring organisational framework’ and ‘region as a distinct subject with distinct identity, actor capability, legitimacy and structure of decision of making’.⁹ In this sense, today’s Europe is a more region than any other region.

This process of increasing regionness is expressed in terms of ‘regionalisation’ and regionalism. For some scholars ‘regionalisation’, is simply a process part of regionalism, while for others regionalisation and regionalism are two different projects, complementary to each other.

Scholars of the political economy approach make a distinction between regionalism and regionalisation. For them regionalisation is ‘a process drawn forward by market’ and regionalism is ‘a project forwarded by states’.¹⁰ Regionalisation in this sense is a historical process and not the part of conscious

⁸ Bjorn Hettne, “Globalism, Regionalism and the New Third world”, in *Redefining the Third world* by Lloyd Pettiford and Poku Nana (eds.) (Basingstoke: Macmillan, 1998), pp. 69-87.

⁹ Ibid. , pp.72-75.

¹⁰ Andrew Gamble and Anthony Payne, *Regionalism and World Order* (London: Macmillan, 1996), pp.247-264.

political strategy. It is seen as the “regional expression of global integration of economy and changing structures of power and production”.¹¹

Scholars of International Relations, on the other hand, regard regionalisation merely as the de-facto level of regionalism. Bjorn Hettne explains the process of regionalisation as “a change from relative heterogeneity to increased homogeneity with regard to different dimensions, the most important being culture, security, economic policies, and political regime”.¹² According to this approach, regionalisation does not come about unless the states in a particular region want it obviously it includes not only economic but all other levels of region cooperation.

Thus, a debate exists regarding the source of regionalisation- market or states. But there is general consensus that regionalisation leads to an increased flow of trade and other among the constituent members of a region, particularly in comparison to the other parts of the world.

If regionalisation is a process of increasing intra-regional transactions, regionalism can be called as an ideology of seeking higher regionness among member states. Regionalism is also referred to as ‘regional integration’. As Ernst Haas argues “regionalism can be political slogan if so it is the ideological data that

¹¹ Jean Grugel and Will Hout, “Regions, Regionalism and the South”, in *Regionalism Across the North-South Divide: State Strategies and Globalisation in the Semi-periphery*, by Jean Grugel and Will Hout (eds.) (New York: Routledge, 1999), pp. 3-13.

¹² Bjorn Hettne, “Global Market Versus Regionalism”, *The Global Transformation Reader- Introduction to the Globalisation Debate*, by David Held and Anthony McGrew (eds.) (Cambridge: Polity Press, 2000), pp. 156-166.

the student of integration must use".¹³ Integration is treated as the terminal condition by scholars like Amitai Etzioni, while neo-functionalists like Ernst Haas treats it as a process as well as product.¹⁴ There are different schools of thought through explaining the process of region integration. In this direction, federalism, the pluralist or communication approach and functionalism-neo functionalism are important theoretical efforts.

- (a) (a) **Federalism:** - The federalists, with their roots in the idealist school, believe in the creation of 'World Federation' with nation-states as its constituent units as inevitable. To this end, legal provisions, institution building and political education are some important measures. Federalists try to apply the principles of federalism to regional integration as an intermediate phase towards world federation. In short, "federalism seeks to meet the need for more effective governmental action in some domain through centralization and the democratic postulate of local control and local autonomy through decentralization".¹⁵

Leading federalists call in federalists like Carl J. Friedrich also speak about demands, expectations, rational bargaining and the growth of institution.¹⁶

¹³ Ernst B. Haas, "The Study of Regional Integration- Reflections on the Joy and Anguish of Pretheorising", in *Regional Integration- Theory and Research* by Leon N. Lindberg and Stuart A. Scheingold (eds.) (Massachusetts: Harvard university Press, 1971), pp. 3-43.

¹⁴ Charles Pentland, *International Theory and European Integration* (London: Faber and Faber, 1973), pp.14 -15.

¹⁵ Ernst Haas, op. cit., pp. 20.

¹⁶ Ibid, p. 21.

But federalism does not have a separate identity as a clear-cut approach towards regional integration.

b) (b) Pluralist or Communication Approach

According to pluralist approach integration is essentially the formation of a 'community of states'. This community is defined in terms of "a high self sustaining level of diplomatic, economic, social and cultural exchange between its members".¹⁷ The leading exponent of the approach, Karl Deutsch emphasises that 'we feeling', or a sense of common culture based of intense interactions and communications between all levels of society in question, while forming a community.¹⁸ Though this approach rightly stresses the security-related aspect in regional integration, it does not suggest the steps for achieving the goal.

c) (c) Functionalism and Neo-functionalism

In the twentieth century, functionalism is the most important theoretical to explain integration and cooperation. David Mitrany, the leading functionalist, believes in the technocratic and other non-political areas as a starting point for cooperation among the states. Here, Mitrany introduces the 'doctrine of ramification', according to which the cooperation in one functional task would lead to the change of perspective in other fields also.¹⁹ Therefore, for the functionalists, region is not the entity like Western Europe or the Caribbean but

¹⁷ Charles Pentland, op. cit, pp. 43-44.

¹⁸ ibid, pp. 49-50.

¹⁹ James E. Dougherty and Robert L. Pfaltzgraff (jr.), *Contending Theories of International Relations*, (New York: Longman, 1996), pp. 422-423, cited from *A Working Peace System* by David Mitrany, (Chicago: Quadrangle Books, 1966) pp. 97.

the functional areas like railways transport or epidemic control. They rightly emphasise 'the sharing of sovereignty' instead of surrendering it. But the complex region like West Asia or South Asia show that unless the political or security related complexities of the region are resolved, functional cooperation cannot be initiated.

Neo-functionalism, the intellectual descendant of functionalism, tries to overcome the flaws of the latter by introducing political factors with technical issues in building co-operation. The essence of the neo-functionalist argument lies in the stress on the interaction of political forces, interest groups, parties, governments, and international agencies. For the neo-functionalists, political integration is a process of change that leads to some sort of political community. This process is characterised by the concept of 'spill over'. As developed by Haas, spill over purported to link the socio-economic variables stressed by the functionalists with the political variables.²⁰

These theories reveal that regional integration or regionalism is seen as an instrument for transcending the nation-state system. Scholars assume that for meeting all human needs and eliminating the problems of political conflicts and war, regionalism can be useful device.

Different scholars define regionalism in various ways. Wyatt-Walter defines regionalism as "a conscious policy of state or sub-state regions to co-

²⁰ Percy Mistry in Hettne et. al., op. cit., pp. 116-154.

ordinate activities and arrangements in a greater region”.²¹ For Derek McDougall, regionalism means “conscious measures by states to act together in certain circumstances at regional level as a means of advancing whatever interests they might hold in common”²².

The nature of common interest can be unidimensional, with either security or trade related aspects, or may multidimensional in nature, including political, strategic, cultural and economic aspects. As the efforts to construct regional arrangements started with the establishment of European Economic Community (1957) in Western Europe, economic integration has become the backbone of regionalism.

Though trade liberalisation through tariff reduction is the important feature of economic integration, it can take various forms:²³

(a) Preferential Trade Area (PTA)

Preferential Trade Area is a union of two or more countries. Within the PTA the tariff is lower on the goods and services produced within the member countries, compared to those produced outside.

²¹ Andrew Wyatt-Walter, “Globalisation and world Economic order”, in *Regionalism in World Politics* by Lawrence Faucett and Andrew Hurrell (eds.), (Oxford: Oxford University press, 1995).

²² Derek McDougall, “Indian Ocean Regionalism- Perspectives from Mauritius, Seychelles and the Reunion”, in *The Indian Ocean Review*, vol. 10, No. 2, June 1997.

²³ For in depth explanation of these forms of economic integration see Joan Rodgers, “From Bretton woods to the World Trade Organisation and the Formation of Regional Trading Blocs”, in *Handbook on the Globalisation of the World Economy*, by Amnon Levy- Livermore (ed.)(Northampton: Edward Elger, 2000), pp. 199-221.

(b) Free Trade Area (FTA)

In a free-trade area, member countries remove tariffs among themselves but each member determines its own tariff structure towards non-members.

(c) Customs Union

A customs union is a free trade area where member countries apply common external tariffs along with the removal of internal tariffs.

(d) Common Market

A common market is a custom union with liberalisation of goods, capital and services among the member countries. There is no constraint on trade from the government machinery.

(e) Economic Union

Economic Union is an advanced stage of economic integration. It involves harmonization of economic policies, with the mobility factor.

These stages of regional integration can be divided into preferential or closed regionalism and open regionalism.²⁴ In preferential regionalism, member states remove tariffs amongst themselves. Thus, it differentiates between members and non-members while imposing tariffs. This creates the problem of trade deflection or diversion, which is a major concern for international communities in explaining the effects of regionalism. In open regionalism the benefits of closed

²⁴ Robert Langhammer, "The Developing Countries and Regionalism", *Journal of Common Market Studies*, vol. 30, No.2, 1992, pp.212.

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regional ties are promoted in a non-discriminating manner this kind of regional arrangements goes hand in hand with the global trading system. Thus, NAFTA or ASEAN (Pre-1994) are some examples of preferential regionalism and the European Union or Asia Pacific Economic Cooperation (APEC) are classic examples of open regionalism.

This theoretical and conceptual discussion would not enable us to explain the evolution of regional integration in international relations.

The evolution of Regionalism

Regionalism has evolved since the end of the Second World War. This evolution can be seen in three broad phases: - (i) old regionalism (ii) decline of regionalism (iii) new regionalism.

The first phase of regionalism which started in the 1950s, is known as 'old regionalism' or 'first regionalism'.²⁵ In this phase, Western Europe set an example of regional cooperation with the establishment of the European Coal and Steel Community in 1951. The developing countries opted for regional co-operation to counter the biased nature of trade and investment in favour of developed countries. But the regional arrangements among developing countries were ineffective and trade preferences by developed countries to developing countries were limited.

²⁵ Though 'Old Regionalism' is the general term used to specify the Regional Trading Arrangements (RTAs) of the late 1950 and early 1960's. Prof. Jagdish Bhagwati termed it as 'First Regionalism'. Jagdish Bhagwati and Arvind Panagariya, "The Theory of Preferential Trade Agreements: Historical Evolution and Current Trends", *American Economics Review*, vol. 86, pp. 82-87.

The old regionalism was developed with specific features. First of all, it was developed in the context of the Cold War. The obvious corollary was that old regionalism had an ideological dimension. Therefore, the regional arrangements in this phase were created from above. Lastly, the old regionalism was unidimensional in character. That is, the regional arrangements were created either for security or developmental purposes, rarely for both simultaneously.

The Treaty of Rome (1957), setting up the European Community was a landmark in this phase. This was followed by the Central American Common Market (1960), the Latin American Free Trade Association (LAFTA 1960), The Association of South East Asian Nations (1967) and Caribbean common market (1973).²⁶ Most of the arrangements were directly or indirectly supported by the USA. Therefore economic cooperation was the aim but countering communism was the priority.

In the 1950s and the 1960s not only the regional arrangements, but theories of regional integration were prospered in an unprecedented way. David Mitrany initiated a theoretical effort, with the functional argument. Later, Ernst Haas, Karl Deutsh, Speigal and Cantori and many others carried it on.

The Decline of Regionalism

The enthusiasm for regional integration as well as for its theories went on decline by the mid-1970s. The institutional functioning of the European

²⁶ Source: *Europa Yearbook 2001*, Vol.1 (London: Europa Publications, 2001).

Community slowed down and other regional arrangements were not successful in constructing their own institutions. The scholar started thinking about the theories of regional that they are no longer useful. The theories of regional integration either missed or downplayed the externalisation factors in regional arrangements, which was another problem. Another important reason for disillusionment was that the scholars of regionalism insisted on 'integration' that means, sacrifice of national sovereignty. This was not possible for any nation especially for the developing nations in the context of the cold war. These drawbacks lead to the decline of interest in the theories of regional integration from the mid 1970s.

The New Regionalism

Since the late 1980s the success of the regional free trade once again renewed the interest in regionalism among scholars. Since 1995, over 100 agreements covering trade in goods or services, or both, have been notified to the WTO. Currently over 150 agreements are in force, most of which have been concluded in the past 10 years (see Appendix I, Chart 1). The network of RTAs throughout the world is now highly complex and many countries are members of several agreements, sometimes with differing rules. Nearly 60 per cent of the notified RTAs in force at the end of 2000 have been concluded among European countries. RTAs concluded among developing countries account for about 15 per cent of the total (see Appendix I, Chart 2). This phase of the regionalism is known as the 'New Regionalism' or 'Second Regionalism'.

The New Regionalism is defined and interrupted in various ways. Wil Hout discusses seven theoretical interpretations of new regionalism but their theories can be broadly categorised into three schools- neo-marxist, International economy and International relations.

Neo-marxism, which draws inspiration from classical Marxism, views regionalism as a pattern of imperialism. They explain regionalism as a domination or exploitation of one country or area by actors from another country or the area. Johan Galtung described regionalism as an imperialist structural relationship between countries from the centre and periphery.²⁷ On the same line Constantine Vaitsos argues that the activities of multinationals will in many cases, obstruct effective regional cooperation among developing countries.²⁸ In the same way, new regionalism is seen as a capitalist project.

Thus, neo-marxists interpret regionalism as subordination of the periphery and semi- periphery to the interest of the core with respect to trade and investment opportunities. Through regionalisation, the developed countries intend to break the southern solidarity. The multinationals are seen as agents of the capitalist world, to block the regionalist projects among the developing countries. But the ground reality does not support this argument. The process of regionalism is taking place among the developing countries and also between developed and

²⁷ Wil Hout, "Theories of International Relations and the New Regionalism", in Jean Grugel and Wil Hout (eds.), op. cit., pp.1920.

²⁸ *ibid.*

developing countries. The international economy school, best represented by the World Bank, interprets the new regionalism with purely economic and trade aspects. The new regionalism according to this school is characterised by economic enhancement, including liberalisation of intra-regional trade in services and intellectual property, free movement of capital and labour and the harmonisation of regulatory regimes.²⁹ The international economy school also notes that a distinctive feature of the new regionalism is international relations with the North- South dimension. It means, unlike earlier regionalism, the new regional free trade areas are build up with the co-operation of developed and developing countries. As in NAFTA, the US and Canada are developed countries, while Mexico is a developing. Thus for the school of international economy, absence of trade barriers is the basic character of the post 1990s regional arrangements, with a distinct north-south dimension: This understanding of new regionalism seems very limited, given the absence of non-economic aspects of regional arrangements.

The international relations school is represented by various approaches such as the neo-realist, the neo-liberal institutionalist and the neo-functionalist. According to neo-realism, regionalism takes place for security reasons to avoid threats by increasing military capabilities. The role of the regional hegemonic state and the relative gains to the member states are important concerns for neo-realists

²⁹ Percy S. Mistry, "The New Regionalism: Impediment or Spur to Future Multilateralism" in Bjorn Hettne, et. al., op. cit., pp. 122-124.

in the neo-regionalism. Neo-functionalist theory assumes that problems of increasing independence would lead governments to co-operation. Policy coordination would spread from one issue area to another and the spill over effect would be result in deepening integration. Neo-liberal institutionalists see cooperation as a rule because of the extent of interdependence of states on each other. This “complex interdependence” is managed through creating and maintaining international regimes.³⁰

Within the international relations school, the ‘New Regionalism Approach’ (NRA), provided by the Bjorn Hettne and his colleagues, is the most comprehensive one. Hettne sees new regionalism as a multidimensional process of regional integration, which includes, economic, political, social, cultural aspects.³¹ For Hettne new regionalism is a package rather than a single policy. Therefore, this approach goes beyond the free trade idea. Rather, the political ambition of establishing territorial control and regional conference cum identity are seen as the goals of regionalist projects. The stress on the changed global context and the implied differentiation from old regionalism are important feature of new regionalism. As James Mittleman explains, “the new regionalism approach is an important advance over the different versions of integration theory. All of them

³⁰ The concept of ‘Complex Interdependence’ is associated with Robert Keohane and Joseph Nye while ‘regime theory’ is constructed by Stephen Krasner. Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, (Boston: Brown, 1977) and Stephen Krasner, *International Regimes* (New York: Cornell University Press, 1983).

³¹ Bjorn Hettne, “Global Market Versus Regionalism”, in David Held and Anthony McGrew, op. cit., p.164.

are deficient in as much as they focus on power relations and fail to offer an explanation of structural transformation. In some ways, a break with this tradition, NRA explores contemporary forms of transnational cooperation and cross border flows through comparative historical and multilevel prospective.³²

The new regionalism is characterised by the creation of new regional organisations and 'deep integration' through extending membership or concerned issues. The comprehensive nature of the new regionalism approach allows us to take both these aspects into consideration.

Characteristics of the New Regionalism

Although the following characteristics of new regionalism are not exclusive, they do apply to most of the regional arrangements.

1. The new regionalism is a second wave of regional integration, which started in the mid-1980s but took off in the 1990s with the end of cold war.
2. Integration in the new regionalism is deep and wide in nature. It is not confined to the developed north. It is not limited to either security or development related issue. The new regionalism is working across the north-south divide and encompasses economic, security, social and cultural issues.

³² James Mittleman, "Rethinking the New Regionalism in the Context of Globalisation", in Bjorn Hettne et.al. , op. cit., pp.26-53.

3. Rather than the visible trade related dimension, other economic aspects such as investment, human resource development as well as other dimensions- social, cultural and political- are more important.
4. There are a diversity of regionalisms in the new regionalism, depending upon the degree of 'regionness' and the priority areas.
5. With the end of the Cold War, the ideological dimension is absent in the new regionalism. New regionalism is totally associated with liberalisation of the economy.
6. In the new regionalism, integration is not a key word, like in the old regionalism. In fact, surrendering of sovereignty, associated with the 'integration' is not at all expected in the new regionalism. Instead 'sharing' or 'bargaining' of sovereignty is important.
7. The theoretical efforts are less evident in the new regionalism. Though some new concepts have been introduced, and old theories have been revised to explain the phenomena, theoretical efforts associated with the old version of regionalism are largely absent in the new one.

These characteristics show that the new regionalism can be understood only with reference to the old religion. Bjorn Hettne has brought out the difference between the two regionalisms in an apt manner.³³

³³ Bjorn Hettne, "Global Market Versus Regionalism", in David Held and Anthony McGrew, *op. cit.* p.159.

- a) Whereas the old regionalism was formed in a bipolar cold war context, the new is taking shape in a more multi-polar world order.
- b) Whereas the old regionalism was created 'from above' (that is by the superpowers), spontaneous process, 'from within' in the sense that the constituent states themselves are the main actors.)
- c) Whereas the old regionalism was specific with regard to objectives, the new is more Comprehensive and multidimensional process.

Reasons for the Emergence of the New Regionalism

The reasons for the emergence of new regionalism are varied, but not very difficult to perceive. There are three important reasons for the growing commitment to regionalism.

Firstly, new regionalism reflects the increased importance of trade and economic openness. Globalisation is manifested by the rapid expansion of privately sponsored transnational economic activity. As Percy Mistry observes, "in such circumstance of heightened political and economic risk, with a sudden diffusion of political and economic power on a littoral basis, it is not unnatural for their nations to look to their immediate neighbourhood (that is, regionalism) for safety in an attempt to widen the economic space over which policy makes can collectively expect more control and retain a degree of dynamic equilibrium".³⁴

³⁴ Percy S. Mistry, "The New Regionalism: Impediment or Spur to Future Multilateralism", in Hettne et. al., op. cit., pp.121-122.

Here, the new regionalism is seen as a response to the Globalisation.

The end of the cold war became the most important catalyst for renewed regional cooperation. Old ideological enemies and political rivals are more willing to collaborate with each other than before.

Thirdly, the enlargement of the European community and the establishment of the North American free Trade Agreement (NAFTA) for the other regions, especially the developing ones.

There are different sets of reasons for different countries. "For some states policies to promote new regionalism reflect the adoption of conscious strategies to improve their global market position, or more properly put the market position of companies with production sites within their geographical boundaries. For others, it reflects a defensive strategy in the contest of long haul economic reform. In all cases, building regions is seen as functional for growth".³⁵

Thus, new regionalism offers the advantages of large-scale economies, trade flows and collective management of security, social and cultural issues. To avail these benefits, nation-states bargain their sovereignties for region -building.

Conclusion: Implications of the New Regionalism.

The rise of new regionalism obviously has multiple implications for the international system. The relation between the state and non-state actors has

³⁵ Jean Grugel and Wil Hout, *op. cit.*, pp.10-11.

become more complex. Though nation-states are the single most important actors in international politics, their functions and nature of their sovereignty is changing. In the process of regionalisation, nation-states have to bargain their sovereignty.

In terms of welfare, members of successful regional arrangements are benefiting more than non-members. A regional trade block attracts more foreign direct investment in the region. This process generates a competition in the private sector. Sometimes, this competition does create monopolies, but it may also lead to increased efficiency, technological advancement and economic growth.

In the field of security, the situation is more complex. A Regional teamwork may help to solve intra-regional conflicts by opening up untapped possibilities in the confidence building and conflict resolution. The regional transactions have facilitated the cultural, ecological and social cooperation. But regionalisation also may stimulate interregional conflicts.

But the real research question relates to the impact of the new regionalism on global trade. In other words, whether new regionalism is creating trade through lowering tariffs between regions or diverting trade through increasing interregional barriers.

Chapter 3

Globalisation: Structures and Processes

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All historical periods of human life get expressed with some catchwords. The ancient period of human history is known as the 'Stone Age'. The medieval period is strongly associated with religions and inter-religious wars. The modern period is marked by the industrialisation, institutionalisation and secularisation. The twentieth century, because of the dramatic changes in human interaction, has witnessed many such catchwords. It started with communism and nationalism, moved on to the two world wars and the Cold War and ended with the phenomenon called 'Globalisation'. What does Globalisation mean? What are the structures and processes driving this process of Globalisation? And what are the implications of Globalisation? And what are the implications of Globalisation for the international system? This chapter seeks to focus on these key questions.

Meaning of Globalisation

For the common man, globalisation is explicit in the availability of multinational products and visibly increased communication. But Globalisation implies much more in terms of 'structural transformation', for the students of international relations.

It is known that the ideas of 'globe' and 'global' are associated with the spherical shape of the earth. Therefore it should not be difficult to understand and define what is global and what it means to 'go global', that is globalisation. But there is a debate among the scholars about the acceptability of the term 'global', for describing the contemporary world. The present world is constituted of 'nation states' and the term 'global' is seen as antithetical to the established concept 'inter-national', by which is actuality meant 'inter-state'. On the basis of these contested understandings of the contemporary world, scholars are divided into the internationalists and the globalists. The internationalists 'see states as the principal actors in global political and economic order', while the globalist 'see the emergence of salient alternative authority structures that compete (increasingly successfully) with the states is determining the direction of the global political economy'.¹

However one conceives the nature of the contemporary world, international or global, the fundamental transformations in important aspects of the international system, especially in the international economic relations, are indispensable. These global changes can be briefly summarised as, the 'Triad' of North America, the European Union and Japan; the vast increase in capital flows

¹ Richard Higgott, *Globalisation and Regionalism: New Trends in World Politics*, (UAE: The Emirates Centre for Strategic Studies and Research, 1998.) p.2. Besides this, Held and McGrew have addressed the difference between sceptics and globalist in a comprehensive manner. See. David Held and Anthony McGrew (eds.), *The Global Transformations Reader*, (Cambridge: Polity press, 2000).

in the world economy; the growth of global firms as international actors and the nature of international production; the further blurring of boundaries between domestic and international realms; and the ideological basis of international economic relations”.²

If we consider the changes such as increasing economic monopolies, increasing flows and interaction and weakening of boundaries as ‘going global’, then defining globalisation becomes more difficult. This is because these changes are not new to the international system. As George Modelski explains, “throughout the recorded history, a trend can be observed toward the enlargement of geographical scope of human communities; it has been one aspect of the increasing scale of social organisation.”³ If these changes are not new, why has globalisation become the catchword in the contemporary era? Why did the noun ‘globalisation’ first appear in a dictionary of American English only in 1961?⁴ In other words, what are the distinctive characterisations of the contemporary globalisation? That is the real question to answer. The evolutionary understanding of globalisation will help us to answer this question.

2 Roger Tooze, “International Political Economy in the Age of Globalisation”, in *The Globalisation of World Politics*, edited by John Baylis and Steve Smith (Oxford: Oxford University Press, 1997), pp. 212-230.

3 George Modelski, “Globalisation”, in David Held and Anthony McGrew, *op.cit.*, p. 49.

4 Scholte has discussed the historical evolution of the terms, ‘globe’, ‘global’ and ‘globalisation’, see Jan Aart Scholte, *Globalisation: A Critical Introduction*, (London: Macmillan, 2000), p. 43.

The Phases of Globalisation

The history of Globalisation can be seen in four phases with different forms.⁵ These phases are neither exclusive nor represent certain evolutionary logic. It is an artificial periodisation for understanding various forms of Globalisation.

Pre-modern Globalisation

This phase of globalisation begins with the settlement of agrarian civilisations in Eurasia and Africa, ends tentatively with the emergence of Europe with its modern institutions. The political military empires, world religions and the migratory movements were the important agents of globalisation in this phase.⁶ Indic civilisation, Han China, the Latin American Empires and the religious binding force of the Islamic world made the inter-regional and inter civilisational interactions possible. But these interactions were indirect and not yet truly global.

Early Modern Globalisation (1500-1850)

“ By 1500, the characteristic features of modern world politics could already in embryo in Europe, in the course of globalisation these features became the characteristics of entire global system.”⁷ The emergence of Europe as a dominant power, with the force of modern institutions and regional trade flows, was a significant factor in the spread of global secular thinking. Still, Christianity

5 David Held, Anthony McGrew, David Goldbatt and Jonathan Perraton (eds.), *Global Transformations*, (Stanford: Stanford University Press, , 1999),pp-414-431.

6 *ibid*, p.415.

7 George Modelski, *op. cit.*, p.64.

was an important force in this phase. Besides this, in the Americas and Oceania, demography and epidemiological flows were important agents of migratory globalisation. Though, the signs of economic interactions and global consciousness were evident at some level in this phase, it was basically regional in character.

Modern Globalisation (1850-1945)

This phase was characterised by the substantive increase in the infrastructures of transportation and the spread of imperialism. In the 1890s, the inventions of telephone and radio were landmark events that vastly increased the ease and frequency of communication- capitalist revolution was also over in Europe. Therefore, trade investments and capital flows were significant, the institutions and values of democracy were being diffused and economics and political imperialism was at its high noon. As Jan Aart Scholte observes, “incipient globalisation emerged on the premise that a single set of secular rules should apply across the whole civilised world.”⁸

Contemporary Globalisation

The distinctive character of contemporary globalisation lies in the dramatic and profound changes in economic and political structures at the end of the Second World War. The emergence of international organisations and economic regulatory institutions like the United Nations and the General Agreement on trade and Tariffs (GATT) and as well as the politics of the Cold

⁸ Jan Art Scholte, op. cit, p.64.

War, laid the foundations of contemporary globalisation. Détente, the economic crisis of the 1970s and the subsequent collapse of the socialist economies have speeded up the process.

As we have seen, there is no consensus among scholars about the exact meaning of globalisation. There are at least four understandings of contemporary globalisation: (a) globalisation as a historical epoch, (b) globalisation as an ideology, (c) globalisation as a technological revelation, and (d) globalisation as a capitalist structural transformation. In fact, globalisation includes all these dimensions. Therefore, the need is to proceed beyond the debate between internationalists and globalists and to develop some consensual understandings about contemporary globalisation. Some definitions will help bring out some of the salient features of contemporary globalisation.

Anthony Giddens with his sociological perspective defines globalisation as “the intensification of worldwide social relations which links distant localities in such a way that real happenings are shaped by events occurring many miles away and vice versa”.⁹

According to Ulrich Beck, “globalisation is a blanket term to describe the process through which sovereign nation-states are criss-crossed and

⁹ Anthony Giddens, “The Globalising of Modernity”, in David Held and Anthony McGrew, *op. cit.*, p.92.

undermined by transnational actors with varying prospects of power orientations, identities and networks”.¹⁰

In his short but distinct definition, Scholte identifies globalisation as ‘deterritorialisation’ or ‘supra-territorial’ relations between people.¹¹

Anthony McGrew and David Held provide us with a comprehensive, useful definition. According to them, “globalisation denotes the expanding scale, growing magnitude, speeding up and deepening impact of international flows and patterns of social integration”.¹²

These definitions give us at least four distinct features of contemporary globalisation: (i) Technological revolution in the field of communication (ii) Integration of the world economy (iii) Compression of time and space and (iv) Supra-territorial consciousness.

Though all these aspects of globalisation are important, the economic and financial aspects are more significant and useful for this study. Hence, globalisation is primarily emphasized as the growth of economic activity, transcending the politically defined boundaries.

10 Ulrich Beck, “What is globalisation?” in Held and McGrew, op. cit. , pp.30-32.

11 Jan Aart scholte, op. cit., p. 46.

12 David Held and Anthony McGrew, op. cit. , “Introduction”, p. 4.

Structures and Processes of Globalisation

From the above discussion about the meaning and forms of globalisation it is evident that globalisation is a complex of overlapping social, economic and political processes. Obviously, the structures and processes that are driving globalisation are not easy to perceive. Broadly, the structures of globalisation constitute three processes, interaction, interpenetrating and interdependence.¹³

Structures of Interaction

The cross-national interactions enabled through developments in the field of communication and transportation has provided significant impetus to compression of time and space. The communication revolution started with invention of the telegraph and the telephone, the other means of communication like satellites, television and now the World Wide Web of the Internet. For example, television transmissions via direct broadcast satellite first started in 1976. By the mid 1990s Cable News Network (CNN) claimed that its transmission from 17 satellites reached some 123 million-reception points in around 140 countries.¹⁴ Thus, the spread of communication structures is intense, frequent and wide.

¹³ The processes of interaction, inter-penetration and interdependence are discussed by Wolfram F. Hanrider, while discussing International Integration, see "International Integration: Global" in *International Encyclopedia of Social Science*, vol. 5, (New York: Macmillan, 1968), pp. 528 - 533.

¹⁴ Jan Aart Scholte, op. cit., pp. 75-76.

The growth of trans-world transport, especially in air traffic, has contributed to the globalisation activity and consciousness. The instantaneous nature of transportation has expanded worldwide migration and tourism. The world total of air traffic between countries grew from 25 million passengers per annum in the 1950s over 400 million in 1996.¹⁵ These structures of interaction are also leading towards cultural homogenisation in terms of ideas, values and lifestyles. The intense and extensive nature of these structures makes them important constituents of globalising structures.

Structures of Interpenetration

In the era of globalisation, the constituting units of the international system are highly influenced by each other. Here, the hyper-power in the form of the US, the emergence of non-state actors and the changing nature of the nation-state system are the important structures of intergeneration.

In all the capabilities, military, economic, political and cultural, the US has dear cut preponderance. The penetrating military capacity of the US has been visible from the Gulf War right up to the war against terrorism.

The emergence of non-state actors in terms of intergovernmental organisations, non-governmental organisations (NGO's), multinational corporations and militant terrorist groups, are making the divisions between 'domestic' and 'international' increasingly irrelevant. There are as many as 16,500

¹⁵ *ibid*, pp 82-83.

trans-border civic organisations.¹⁶ By the mid 1990s more than 38,500 multinational corporations worldwide with more than 250,000 foreign affiliates, generated 5.2 trillion in global sales.¹⁷ The number and capabilities of terrorist-militant organisations are unaccountable. The availability of military and economic resources to these non-state actors is very high, which makes the penetration very easy for them. Therefore, the conditions of globalisation make the categories of north-south irrelevant and “reflect a new geography of power and privilege which transcends political borders and regions, reconfiguring established of social power and wealth.”¹⁸

Structures of Interdependence

The structures of interaction and inter-penetration also lead to the increasing interdependence. The markets- capital and trade, financial transactions and transnational production distribution system constitutes the interdependence in the globalising process. Therefore globalisation is sometimes defined as “the broadening and deepening linkages of national economies into a worldwide market, for goods, services and especially capital”.¹⁹

16 *ibid.*

17 Charles W. Kegley and Eugene R. Wittkopf. *World Politics- Trends and Transformation*, 7th edition (New York: St. Martin's Press, , 1999).

18 David Held et. al. , *op. cit.*, p.429.

19 John F. E. Ohiorhenuan, “The South in an Era of Globalisation”, in *Cooperation South*, No. 2 (New York: UNDP, 1998), pp. 6-15.

The nature of international markets has drastically changed in the post Second World War era, especially since the 1970s. Now, the markets can no longer rely only on the basic principle of liberalism, 'Natural Comparative Advantage'.²⁰ Besides the natural advantage, in terms of resources and the production of some goods, the countries have got to have a competitive advantage over one another, especially in technological advantages. The rapid growth of manufactured exports, widespread extension of trading networks and significant increase in the service sector has made the market a principal structure of globalisation. The manufactured exports from developing countries have risen from less than five per cent of world trade to over fifteen percent today. The trading network among 68 important countries has risen from 69.4 per cent in the 1950s to 95.3 per cent in the 1990s. The services trade has more than doubled in the last decade, and now constitutes more than 20 per cent of total world trade.²¹

The integrated financial markets have become a prominent part of the interdependence structures. Multinational banking, security markets, insurance business and other financial institutions are at unprecedented high in the last decade. The total amount of the international capital market in outstanding loans is

²⁰ The concept of comparative advantage was first discussed by David Ricardo in his liberal classical theory of trade. It is discussed by Joan Rogers in explaining the evolution international liberal trade. see Joan R. Rodgers, "From Bretton woods to the World Trade Organisation and the formation of Regional Trading Blocs," in *Handbook on the Globalisation of the World Economy*, edited by Amnon-levy Livermore, (Cheltenham: Edward Elgar, UK, 2000), pp. 199-223.

²¹ David Held et. al., op. cit., pp. 288-90.

about US \$ 6 trillion.²² The aggregate value of official foreign exchange reserves in the world rose from \$ 100 billion in 1970 to \$ 1,579 billion in 1997. The total bank deposits owned by non-residents at the world level rose from \$ 20 billion in 1964 to \$ 7.9 trillion in 1995.²³ The innovation in communication technology has further facilitated the integration and convergence in the financial sector.

The volume and nature of trans-border production process and intra-firm trade has also been revolutionised. Almost all the developing countries and erstwhile communist countries have opened up special economic zones (SEZs) to attract foreign direct investment. Besides that, production zones and processing zones are being established for foreign firms. This whole specialised production system has led to intra-firm trade. The US Federal Trade Commission has estimated that between 1983 and 1992, intra-firm trade accounted 43 per cent of US-Europe trade and 71 per cent of US Japan trade.²⁴

The international financial system with liberal economic principles was created to ensure trade, growth, development and reconstruction after the Second World War. The institutional mechanism was also provided in the form of the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), commonly know as the World Bank and the General

22 *ibid*, P.291.

23 Jan Aart Scholte, *op. cit.*, pp. 78-79.

24 John F.E. Ohiorhenuan in *Cooperation South*, *op. cit.*, p.9.

Agreement on Trade and Tariffs (GATT). Though these Bretton Woods institutions has proved to be very effective structures for globalising the liberal economy, they were virtually created and managed by the developed countries, commonly known as the OECD (The Organisation for Economic Cooperation and Development) Countries. The GATT was not comprehensive enough to tackle the problem of trade discrimination and issues like intellectual and properly rights.

To overcome the deficiencies of the GATT, after eight rounds of multilateral negotiations the World Trade Organization (WTO) is emerged as a body with wide reaching powers. The essential functions of the WTO are: to administer and facilitate the implementation of the Uruguay Round; to provide a forum for multilateral trade negotiations; to administer the trade dispute settlement procedures; to review national trade policies; and to cooperate with other international institutes, in particular the IMF and the World Bank, in order to achieve greater coherence in global economic policy making.²⁵ Because of its comprehensive framework the WTO is considered as the most important structure for facilitating the present phase of globalisation.

Besides these trade and finance related mechanisms, some 'common global concerns' have also contributed to the interdependence structure. The problems like climate change, ozone depletion, deforestation, the greenhouse effect, water and oil crises are not restricted to one nation or society. Due to their

²⁵*Europa Yearbook 2000*, "World Trade Organisation" (WTO), (London: Europa Publications) pp.274-77.

essential character and magnitude these problems have generated a global concern. Therefore, the formation of the United Nations Conference on Environment and Development (1983) and agreements like Kyoto protocol are turned out to be important structures of interdependence.

Causation of Contemporary Globalisation

The causes for the emergence of contemporary globalisation have already been touched upon. Scholte has beautifully encapsulated them as (i) the rationalism as a dominant knowledge framework; (ii) certain turns in capitalist development; (iii) technological innovations in communications and data processing; and (iv) the construction of enabling regulatory frameworks.²⁶ Besides these structural causes, some immediate causes are also worth taking note of.

In the international political economy, the concept of 'dynamic competitive advantage' has made technological advancement prominent. This extreme competitiveness has led to the revolution in Information technology. The spread of global networking in media, telecommunication and transportation has helped to create a global consciousness.

The oil crises and the subsequent economic recession in the 1970s have deeply disturbed the liberal economic structures. The gold exchange standard, the nature of capital market and the role of international regulatory institutions

²⁶ Jan Aart Scholte, *op. cit.*, p.90.

were changed to ensure liberal international trade. The IMF has become a major lending institution to developing countries and the focus of the World Bank has changed from growth and development to poverty reduction.²⁷ Subsequently, with the WTO, these global regulatory institutions have become the important carriers of globalisation.

The most important reason for the current wave of globalisation is the collapse of communism as all alternative ideology to liberal capitalism. With the end of the Cold War, the ideological animosity has ended and a new pattern of the global power distribution has emerged. The absolute political and military superiority of the US and its allies enable them to push many countries toward rapid liberalisation, economic as well as political. 'Universal Capitalism' with democracy and human rights is virtually a single paradigm for the globalised world.

Thus, the crises of the 1970s, technological competition and the end of the Cold War become causal factors for the contemporary phase of globalisation.

Implications of Globalisation

Contemporary globalisation, because of its extensiveness and intensity has widespread implications for all aspects of global social life. In the economic sphere, globalisation is providing immense opportunities to individuals as well as

²⁷ Joan R. Rodgers in *Handbook on the Globalisation of the World Economy*, op. cit., p.208.

nations. Nevertheless, the uneven, uncertain and unmanageable character of globalisation has added a new risk factor. The living standard is improving through freer flows of capital and labor, but the disparities within and among nations are increasing in the era of globalisation. The protection of knowledge-based industry through intellectual property rights has become a major political issue. Some scholars even went to the extent to suggest that 'industrial and trade policies have become more important than defense and foreign policy in the globalisation world'.²⁸

At the social and cultural level there is turmoil because of the Western cultural homogenising trend. On the one hand the increased awareness about universal opportunities and threats has generated a global consciousness. On the other hand, there is a backlash due to the widely perceived threats to local identities.

Perhaps, the impact of globalisation is most visible on the political sphere. State monopoly over coercive decision-making authority is deeply threatened by the globalising trend. The traditional concept of security is widened with the coming up of non-state actors, environmental problems and the globalised spread of diseases like AIDS. In sum, "traditional conceptions of state sovereignty

²⁸ Richard Higgott, *op. cit.*, p.17.

and autonomy are being renegotiated and rearticulated within the changing processes and structures of regional and global order”.²⁹

Conclusion

Thus, Globalisation is a multi-dimensional complex of social economic and political processes. These are various explanations and misunderstandings, myths and realities about this phenomenon. Generally, it is perceived as the freer flow of information, goods, services, capital, technology and values across sovereign national borders. Though globalisation tendency has always existed in various forms, the current phase is the most overarching in nature. The processes of globalisation, interaction, interpenetrating and interdependence are working through various structures. The impact of globalisation is beyond complete apprehension. More significantly, globalisation is not a unidimensional or a linear process. There are many reversals and responses to this process. The future of world politics will be shaped by these responses. Regionalism, as a dialectical response to globalisation has an immense potential to influence the process. Therefore, this study is focused on the impact of new regionalism on the process of globalisation.

²⁹ David Held et. al. , op. cit., pp.443-444.

Chapter 4

New Regionalism: Promoter or Obstructor of Globalisation?

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New Regionalism: Promoter or Obstructor of Globalisation?

In liberal economics free trade is always considered as beneficial because it allows a country to consume beyond its production capabilities. The post-Cold War trends of globalisation and regionalisation are characterised by some kind of free trade movements across the borders. But these two processes share a complex relationship in the phase of international structural transformation. Globalisation seeks some kind of standardisation of political and economic practices at the level of international system. On the other hand, regionalism tries to create a sense of identity, on a geographically exclusive basis, through cooperation among the member countries in various fields. In this sense, regionalism can be seen as some sort of territorial and political response to the functional process of globalisation. If regionalism is an attempt to provide political and territorial content to multilateral trading then the impact of regionalism on the overall outcome of the global multilateralism is inevitable. Of course this impact is not one sided. As the processes of globalisation and regionalisation are part of the same global structural transformation, they share a dialectical rather than a linear relationship. This dialectical correlation raises an obvious question of whether regionalism promotes the process of globalisation or obstructs it. The answer to

this question would probably enable us to rationalize the state effort to become part of some or the other regional trade block.

There is a debate among liberal political economists regarding the impact of new regionalism on the process of globalisation. The debate is associated with the dynamic benefits of regional integration against the trade diversion created through such arrangements. A group of scholars who view regionalism as complimentary to the wider multilateralist agenda because it also weakens the traditional territorial protectionism of nation states, supporting instead regional trade agreements. These scholars borrow their conviction from the conventional liberal economic wisdom based on the comparative advantage that any kind of liberalisation is welfare improving. On the other hand, many multilateralists fear that with the regionalisation process the international economic system would be fragmented into dominant economic blocs. This protectionism by blocs would consequently halt the process of global multilateral trading.

This debate over the desirability and impact of regionalism is not new. The sceptics of regionalism borrow their wisdom from the great depression of the 1930s, in which “multilateral trade was virtually confined to currency blocks”.¹ Jacob Viner, James Meade and Harry Johnson first discussed these static effects of

¹ Charles Kindleberger, *The World in Depression 1929-1929*, (California: University of California, 1986), p.280.

regional integration.² This analysis was based on the concepts of trade creation and trade diversion, introduced by Jacob Viner. The discussion on the impact of regional agreements was at its peak in the 1950s and the 1960s, during the first wave of regionalism. With the establishment of American hegemony the controversy remained latent for next two decades. The successful formation of trading blocks in the 1990s revived the controversy. As this relationship between globalisation and regionalisation is going to shape the future world order, it is worth reviewing the conflictual positions about the regional agreements.

What is surprising that both groups believe in the beneficial nature of liberal international trade. But the answer of what is beneficial for the nation changes the meaning of free trade. This context, in fact sets the stage for the regionalist versus multilateralist debate.

Liberal International Trade: Some Key Concepts

Before reviewing the actual debate it is necessary to explain some of the key concepts of liberal trade.³ These concepts would help us to understand the complex arguments made by the supporters and opponents of regionalism.

² Joan Rodgers, "From Bretton Woods to the World Trade Organisation and the formation of the Regional Trading Blocs". in *Handbook on the Globalisation of the World Economy*, edited by Amnon Levy-Livernore (Cheltenham: Edward Elgar, 2000), p 213.

³ These concepts are explained with the help of discussion in the following works: Joan Rodgers, op. cit., and Percy Mistry, "The New Regionalism: Impediment or Spur to Future Multilateralism" in *Globalism and the New Regionalism*, edited by Bjorn Hettne, et. al., (London: Macmillan/UNU- WIDER Series, 1999), pp. 116-153.

Absolute Advantage: - In 1776, in his *Wealth of Nations*, Adam Smith first time argued that any country with an absolute advantage in the production of some good can get the benefits of free trade. According to him, to have an absolute advantage, the country must be able to produce the good with fewer resources than any other country. The theory suggests that the countries with more resources can benefit from free trade but this may not be true for the less resourceful countries.

Comparative Advantage: - David Ricardo and later Jacob Viner developed the concept of comparative advantage. According to this concept to benefit from free trade it is sufficient to have a comparative advantage in something. The idea of comparative advantage advocates is that free trade is beneficial for all countries. This advantage from liberal trade is also known as 'the static gains from free trade'.

Dynamic Competitive Advantage: - With the increasing role of market, sophisticated processing in production, effective global media and growing knowledge based industry the concept of 'dynamic competitive advantage' has come up. According to the scholars like P.S. Mistry, the advantage in free trade is determined not only by production factors but also by dynamic factors like technology and information.

Trade Creation and Trade Diversion: -While considering the issue of customs union, Jacob Viner introduces the seminal concepts of trade creation and trade diversion. According to him, trade creating unions are beneficial and trade diverting ones are harmful to the member countries and to the world as a whole.

The trade creation effect arises from a union partner undermining another union member's less efficient industry, which is beneficial. The trade diversion arises from a union member replacing a lower cost source outside the block to less efficient source inside the block to take the advantage of tariff preferences.

James Meade extends the same theory while discussing the internal trade dynamics of customs unions. He makes two inter-related points regarding preferential trade blocks. Firstly, it is not necessary that hundred percent preferential trade liberalisation would be welfare improving. Secondly, Meade's analysis shows that as tariffs were reduced within a union towards zero, the gain from trade was less compared to the loss of trade diversion.⁴

New Regionalism: A Promoter of Globalisation

The supporters of regional agreements believe that customs unions or free trade areas are perfectly in accordance with the general agreement. As new economic entities, these agreements are not contrary to the trade expansion. In contrast, the advocates of new regionalism consider that such economic unions are of benefit not only to their members but also to non-members.

Due to dramatic changes in the international political and economic environment, the Vinerian approach is not enough for explaining the reasons for the emergence of new regionalism. Indeed, this is a general sentiment shared by

⁴ Jagdish Bhagwati, "Departures from Multilateralism", *The Economic Journal*, 100, Dec. 1990, pp.1304-1317.

the promoters of regionalism. As Percy Mistry remarks, “Vinerian analysis does not accommodate a reasonable assessment of either the dynamic economic effects or the non-economic benefits and effects of regional integration”.⁵

Wilfred Ethier argues that as the multilateral system is much more developed when compared to the phase of old regionalism, the Vinerian perspective is secondary in the analysis of new regionalism.⁶ According to Ethier, the new regionalism is largely motivated by the desire to facilitate entrance into global multilateral trading because regional trading enables these countries to compete amongst themselves for the necessary direct investment. Therefore, Ethier concludes, regionalism plays a key role in expanding and preserving the liberal trade order “by internalising an important externality”.⁷

Robert Lawrence considers that most multilateralist concerns vis-à-vis regionalism are misplaced because stronger regional integration need not be associated with higher external barriers. In fact, he believes that this trend of new regionalism could have positive effects on the rest of the world through their extra regional trade. According to him these open regional blocks can actually promote and facilitate external liberalisation. Therefore the possibility of regional

⁵ Percy Mistry, op. cit., p. 145.

⁶ Wilfred Ethier, “The New Regionalism”, *The Economic Journal*, 108, July 1998, pp1149-1167

⁷ *ibid*, p.1160.

arrangements becoming building, rather than stumbling blocs towards a more integrated world economy is higher.⁸

According to Richard Higgott the assumptions about the dangers of bloc formation and prospects of trade war are exaggerated and misleading. For him the important aim of regionalisation is to enhance the overall credibility of the region vis-à-vis external actors, especially important potential sources of Foreign Direct Investment (FDI). In this sense, he considers regionalisation as a response to globalisation. Higgott complains that the debate over regionalisation has focused on the issue of trade diversion but neglected the political economy of trade capital mobility in terms of FDI.⁹ If regional economic arrangements were made to become more attractive to FDI, then it would promote trade instead of obstructing it. With this logic Higgott concludes that regionalisation is an intermediary and mitigating stage in the relationship between states on the one hand and the globalising economy on the other.¹⁰

Kenichi Ohmae whole-heartedly supports the process of regionalisation through his concept of “region states”.¹¹ In fact, he visualises the region state system as the natural successor to the nation state system. Region

8 Robert Lawrence, “Emerging regional arrangements: Building Blocks or Stumbling Blocks?”, in *International Political Economy: Perspectives on Global Power and Wealth*, edited by Geoffrey Frieden and David Lake (New York: Routledge 1995), pp. 407-15.

9 Richard Higgott, *Globalisation and Regionalisation: New Trends in World Politics*, (UAE: The Emirates Centre for Strategic Studies and Research, 1998), pp. 38-39.

10 Ibid, p.37.

11 Kenichi Ohmae, “The Rise of the Region State”, *Foreign Affairs*, vol.72, pp. 78-87.

states, characterised by natural economic zones, are perfectly in accordance with the process of globalisation. In Ohmae's own words, "region states make such effective points of entry into the global economy because the very characteristics that define them are shaped by the demands of that economy".¹²

The scholars like Lawrence Summers and Paul Krugman add a new dimension to this debate with their theory of union members as "Natural Trading Partners". According to this theory, union members trade a lot with each other due to their geographical proximity, therefore the risk of trade diversion is minimal. In answering the question of trade diversion, Summers remarks that the issue of natural trading blocs is crucial because to the extent that blocks are created between countries that already trade disproportionately, the risk of large amounts of trade diversion is reduced.¹³

Ralph Pettman takes an extreme position on the relationship between new regionalism and what he calls new globalism. Applying the postmodernist logic he questions how counterpoising globalism and regionalism helps us in attributing essence to both of them. As dichotomy hides many things, the cost of dichotomising is very high. For Pettman regionalism is a smaller version of

¹² Ibid, p.78.

¹³ Lawrence Summers cited in Arvind Panagariya, "The Regionalism Debate: An Overview", (<http://www.bsos.umd.edu/econ/panagariya/overview.pdf>, 1998).

globalisation. He is confident that at some point of time new regionalism will give way to globalism.¹⁴

Graciela Chichilnisky takes the conditional view regarding the issue of trading blocs. According to her a determining factor is whether trade within the bloc is organised around traditional comparative advantages, or around economies of scale.¹⁵ She concludes that regional trading blocs based on traditional comparative advantages will generally divert trade and consequently hinder the prospects of global negotiations. On the other hand, trading policies based on economies of scale mitigate the economic incentive towards tariffs, therefore they can have a positive impact on the expansion of world trade.

The GATT provisions (Article XXIV) also validate regional trading blocks. Article XXIV of GATT makes an exception for preferential trading arrangements, provided: (a) the agreement eliminates tariffs and other trading restrictions on 'substantially all the trade' among the member countries of the trading bloc within 'a reasonable period of time', and (b) the remaining barriers to trade with non-members of the trade bloc are no more restrictive 'on average' than barriers in place prior to the bloc's formation.¹⁶ It means while forming a trade bloc members are not allowed to become more protectionist than they already

14 Ralph Pettman, "Globalism and Regionalism: The Costs of Dichotomy", in Bjorn Hettne, et. al. , op. cit., pp.181-202.

15 Graciela Chichilnisky, "Trade Regimes and GATT: Resource Intensive Growth versus Knowledge Intensive Growth", in *Handbook on the Globalisation of the World Economy*, op cit, pp.226-249.

were towards non-members. As free trade areas are in conformity with GATT provisions, the general wisdom is that trade bloc formation facilitates free trade. The formation of new economic entities like the EU and NAFTA are considered as trade generating rather than trade diverting by the supporters of new regionalism. Though some regional groupings have preferential trade policies for a longer period of time, they cover a very limited volume of trade. That is why the supporters of regional arrangements consider the perceived threat by new regionalism as overstretched.

The WTO secretariat in its report on regionalism concludes, "...to a much greater extent than is often acknowledged, regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open trade".¹⁷ The report also observes that regional agreements have allowed groups of countries to negotiate rules and commitments that go beyond what was possible at the time multilaterally.

The arguments in favour of regional blocs can be summarised as follows. New regionalism promotes not only trade but also different forms of cooperation on issues like migration, demilitarization, environmental protection and infrastructure, between member countries. They serve as a bridge between states and global processes. Being the natural trading partners regional blocs

16 "Beyond the Agreements: Regionalism-Friends or rivals?" (<http://www.wto.org/English/thewto-e/tif-e/bey3-e.com>)

17 *ibid.*

generate trade. As the formation of regional agreements is consistent with the GATT, the possibility of trade diversion is minimal.

Regionalism: An Obstructor of Globalisation

All the critics of regionalism do not perceive the threat in the same manner, but the arguments of these scholars are primarily based on Vinerian analysis. As Jagdish Bhagwati observes, “Vinerian analysis is a great contribution to the international trade theory because it destroyed the prevailing fallacy that any move towards free trade was necessarily welfare improving”.¹⁸

As mentioned earlier, with its hegemonic economic power the US was consistent to its policy of opposing regional arrangements. But after the seventh round of GATT talks the US could not persuade the European Union to go along. Abandoning its policy of opposing free trade areas (FTAs), the US concluded free trade agreements with Israel in 1985 and Canada in 1989. The US moved ahead with North American Free Trade Agreement (NAFTA) jointly with Mexico and Canada. Side by side, the EU continued its expansion. The contagious effect revived the fear among committed multilateralists about the inward looking, protectionist policies by the regional blocs.

In the present context, the threats posed by regionalism to the multilateral trading system are perceived in two ways. The first one is related to

¹⁸ Jagdish Bhagwati, “Departures from multilateralism”, *The Economic Journal*, vol.100, Dec.1990, p. 1300.

the structural provisions of GATT, especially the existence of Article XXIV. The other concern is with the relative stagnation of the globalist project.

Since the 1960s, Jagdish Bhagwati has been consistently pushing the issue of trade diversion due to regional arrangements. In the 1980's, he raised his concern over the existence of Article XXIV itself. He rejected the idea that the rationale behind the inclusion of Article XXIV into the GATT is that preferential arrangements can be welfare enhancing for member countries. According to him when Article XXIV was drafted, its primary objective was to close all possible loopholes by which it would degenerate into a justification for less than 100 per cent preferential arrangements. But reality differs with the intention. Inherent ambiguity in the provision and the political pressures led to the approval of many regional groupings of less than 100 per cent preferences. Bhagwati identifies the political reason of the US tolerance of 100 per cent preferences: that European stability would be aided by economic integration and therefore the latter should be supported. As this political purpose is more or less achieved Bhagwati insists that to rule out free trade areas with diverse tariffs by members and to permit only customs union with common external tariffs Article XXIV should be modified.¹⁹

While answering the question about why further multilateral trade liberalisation was proving so difficult to achieve, Ben Zissimos and David Vines

¹⁹ Jagdish Bhagwati, David Greenway and Arvind Panagariya, "Trading Preferentially: Theory and Policy", *The Economic Journal*, Vol. 108, July 1998, pp. 1128-1148.

also blame the WTO's set of rules, especially article XXIV.²⁰ There are many reasons for countries being more interested in becoming part of a trade bloc. Zissimos and Vines argue that membership of an exclusive arrangement allow member countries to be better off at the cost of making non-members worse off. Because of this benefit, regional blocs do not allow all the willing countries to join. In this case, even if blocs do not become more protectionists against non-members, free trade between all countries is impossible. Therefore, there is an urgent need of reviewing the incentives created by the WTO rules. These scholars also discard the argument that some liberalisation is better than none at all. They claim that apparently the partial liberalisation in terms of trade bloc might be a positive achievement, while liberalisation amongst members of a larger bloc enhances their purchasing power at the expense of outsiders. That is why, even under Article XXIV, trade block formation is a force of growing world inequality.

Kyle Bagwell and Robert Staiger see regional arrangements as a threat to the multilateral system with reference to the structure of GATT/WTO.²¹ According to them, the structure of multilateral trading institutions is based on the three components: the principles of *reciprocity* and *non-discrimination* and the *enforcement mechanism*. Bagwell and Staiger contend that preferential agreements not only undermine the principle of multilateral trading system but also affect the

20 Ben Zissimos and David Vines, "Is the WTO's Article XXIV a Free Trade Barrier?" (Warwick: Centre for the Study of Globalisation and Regionalisation, Feb 2000), *CSGR Working Paper No. 49/00*.

21 Kyle Bagwell and Robert Staiger, "Will Preferential Agreements Undermine the Multilateral Trading System?", *The Economic Journal*, vol. 108, 1998, pp. 1162-1182.

enforcement provision of GATT. They built their case on the basis of the transition period argument. When countries form a free trade area, they eliminate barriers to internal trade but maintain independent external trade policies. Consequently, an efficient set of tariffs cannot be implemented. This situation undermines the efficiency properties of a multilateral trading system, that is the principles of reciprocity and non-discrimination. As most of the times member countries do not share similar political goals, regional arrangement cannot enter into the phase of customs union. Further, they claim that preferential agreements are typically formed over a period of time. This transition period does not allow any retaliatory measures against any country on the ground of violating the agreement. With the historical experience of the EU, which took long transitory period of thirty-four years (1957-99), Bagwell and Staiger prove that preferential initiatives put a strain on multilateral relations.

Linda Low does not consider regionalism as a stumbling block to globalism as a rule but takes a conditional approach. According to her, regional initiatives across the north-south are complementary to multilateral trade but south-south regional trading arrangements are likely to generate more trade diversion than trade creation.²² This may result in net welfare, as the groups of developing countries are less likely to have more efficient producers than the rest of the world. Anthony Venables also adheres to this view. He maintains that the

²² Linda Low, "Whither Multilateralism? Whither Asian Regionalism?", Paper for Third Asia Development Forum on *Regional Economic Cooperation in Asia and Pacific* organised by Asian Development Bank 11-14 June 2001, Bangkok.

benefits of free trade area can be linked to the comparative advantage of member countries - comparative advantage relative to each other and to the rest of the world. This leads to the strong result that FTAs between low income countries will tend to cause divergence of their income levels, whereas FTAs between high income levels will led to convergence.²³

Arvind Panagariya is another scholar who is consistently highlighted on the negative effects of regionalism. For him, the free trade area turns out to be wholly trade diverting. He argues that when trade is multilateral, countries import from and export to union members as well as outside countries. In such a condition preference to the member countries is obvious, which inevitably leads to the trade diversion. Panagariya argues that if potential members are small the possibility of trade diversion is higher. He even discards the “Natural Trading Partner” theory constructed by Summers. Panagariya in collaboration with Bhagwati shows that the natural trading partners hypothesis has no analytical basis. Panagariya explains that the natural trading partners criterion is neither symmetric nor transitive. He illustrates that the United States may be the natural trading partner of Mexico but the reverse is not true. Similarly, the United States is a natural trading partner of both Mexico and Canada but these two are not natural trading partners of each other.²⁴

23 Anthony Venables, “Regional Integration Agreements: A Force Convergence or Divergence?”, Paper prepared for *The Annual Bank Conference on Development*, Paris, June 1999.

24 Arvind Panagariya, *The Regionalism Debate : An Overview*, (<http://www.bsos.umd.edu/econ/panagriya/overview.pdf>, 1998).

Thus, detractors of new regionalism construct a wide range of arguments against preferential regional agreements. Most of them consider that though the formation of regional arrangements is according to the GATT provisions, it is contrary to both the spirit and letter of the GATT. The main concern of the pessimists about regionalism is the trade diverting effect of regional free trade areas. There is another fear of increasing international protectionism, which will undermine the multilateral system. These scholars also perceive the danger of “trade wars” between various regional groupings. The trend of regional cooperation is also considered as antithetical to the global technological trends and the interests of multinational corporations. With the realisation that it is difficult to stop the strong enthusiasm for new regionalism, the multilateralists insist on some measures for minimising the adverse effects of such arrangements. According to them some measures should be adopted at the global level through amending WTO provisions related to preferential trade areas, while the regions themselves should take some initiatives for promoting inter-regional trade.

Regionalism: Moderator of Globalisation

This overview of arguments shows that both the supporters and detractors of regionalism highlight the trade related aspects of regionalisation. Though it is true that the trade related aspects are the most important and visible in regionalisation as well as globalisation, political, cultural, social and environmental aspects are also prominent in both these processes, especially in the

new regionalism. In the trade centric analysis, scholars have assumed that all countries stand to again from a move to free trade. But this is not the case. For instance, while negotiating the ASEAN free trade Area, Singapore wanted a more liberalised system while Indonesia was against such move, due to the fear of losing its natural comparative advantage. But the external security perception about China played an important role in the liberalisation process in ASEAN. With reference to SAARC, India also believes that she is not going to achieve anything significant from her South Asian neighbors. This has resulted into India's lack of enthusiasm about SAARC. Of course, indirect advantages of forming regional economic groupings in terms of foreign direct investment and creating competitive advantage are always there. In the case of SAARC security related aspects play a prominent role in the proceedings of the organisation. The point here is that non-trade related aspects of new regionalism should not be neglected.

Here the New Regionalism Approach (NRA) propagated by Bjorn Hettne and his colleagues can help us. This approach defines new regionalism as a multidimensional process. Hettne explains it as a package rather than a single policy that goes beyond the free trade market idea. He maintains that as new regionalism is a multidimensional process it will promote trade but also other global values, security, development and ecological sustainability.²⁵ The NRA also suggests that there are counter processes to the process of globalisation, leading to

²⁵ Bjorn Hettne, "Globalism, Regionalism and the Third World", in Lloyd Pettiford and Nana Poku (eds.), *Redefining the Third World* (Basingstoke: Macmillan, 1998), pp. 69-87.

mixed outcomes in terms of levels of governance. Regionalism is one of them. Robert Lawrence advocates the same kind of approach with his term “deep integration”. He argues that regional arrangements promote “deeper” integration, unlike multilateral trade liberalisation. “Rather than being confined to “shallow” integration in terms of liberalisation of trade among members, they involve “deep” integration through coordination, if not complete harmonization, of other policies including competition policies, product standards, regulatory regimes, investment codes, environmental policies, labour standards and so on.”²⁶ According to Lawrence such deep integration may confer gains on member countries by lowering the costs of production and improving efficiency in general.

Regionalisation can be seen an attempt to establish some political and territorial control Percy Mistry argues that in the circumstances of heightened political and economic risk, it is not unnatural for nations to look to their immediate neighbourhood (that is, regionalism) for safety in an attempt to widen the economic space over which policy makers can collectively exert control and retain a degree of dynamic equilibrium.²⁷ Again, the point to be stressed is that the political content in the formation is regional entities is also important.

Once we accept the political and other non-trade related aspects are also important, then a new method for evaluating the impact of new regionalism

26 Robert Lawrence cited in Arvind Panagariya, “The Regionalism Debate: An Overview”, (<http://www.bsos.umd.edu/econ/panagariya/overview.pdf>), 1998.

27 Percy Mistry in Hettne et. al., op. cit., p. 121.

on the process of globalisation needs to be established. Some pertinent questions, like how and why states bargain away their sovereignty, what kind of approach regional arrangements have adopted towards non-trade issues and in what ways policy formation by regional organisations has influenced the outcome of four ministerial meetings of the WTO, will help me to establish this correlation.

In the era of globalisation, it is beyond doubt that sovereignty, defined in terms of “political authority based on territory and autonomy” is being undermined. States react to this situation in various ways to retain their sovereignty. Why, then, are they ready to bargain their sovereignty away at regional level? Walter Mattli tries to answer this question. According to him, states engage in sovereignty bargains in which they voluntarily accept some limitations in exchange for certain benefits.²⁸ This bargaining is based on the cost-benefit analysis in relation to global transformation. In this bargaining besides economic wealth, the size and political clout of a country matters. Because all countries, especially developing countries with poor economic health, fear the uncertainty generated by the process of globalisation, they resort to taking help from their neighbours in moderating the process of globalisation. ASEAN can be cited as a success of regional organisation in dealing with the challenge of globalisation.

²⁸ Walter Mattli, “Sovereignty Bargains in Regional Integration”, *International Organisation*, vol. 52 , pp. 150-51.

At the second level, regional arrangements give some identity through cultural aspects. Through identity formation, regionalisation reduces the chances of localist response to globalisation by curtailing the sense of marginalisation. On the other hand, the new regionalism project enables states to acquire supranational consciousness while retaining their local identity.

In this sense, the regional level opens up previously untapped possibilities for solving regional conflicts. The formation of a regional actor also permits it to intervene, directly or indirectly, in intra-state conflicts. When ethnic identities are further stimulated in a process of globalisation, regionalisation provides new structures, for conflict resolution. At the same time, it increases the acceptability of globalisation. Regionalism provides structures and mechanisms to deal with the outstanding issues, which are again proliferated through the process of globalisation. The issue of sustainable development has various dimensions, which are trans-national in nature. They are manageable at the regional rather than the global level.

When we turn up to the WTO conferences, it is difficult to analyse the positions of various regional groupings on the contentious issues because in the WTO individual countries are represented as members. But if we consider the strategies formulated by regional groupings and the individual country positions on various issues at various ministerial conferences, the impact on the multilateral negotiations can be examined.

All the ministerial declarations stress the primacy of the multilateral trading system.²⁹ In the first conference, held at Singapore, the concern over the regional trading arrangements was stressed. In the 1996 conference, establishing labour standards was one of the contentious issues. Because of the successful strategy of developing regional groupings the conference rejected the suggestion of the developed nations to link more labor laws with trade. In the same conference, the “built-in agenda” on the investment and competitions priorities was adapted but again the developing countries had to bargain hard on the issue.

The second ministerial conference, held in Geneva in 1998, focused the difficulties that developing were countries facing in the implementation of the Marrakech Agreement. In the Seattle Conference (1999), the concerns related to anti-dumping, subsidies, intellectual property, and trade related investment measures.

At the Doha Ministerial Conference, there was a pronounced difference between developed and developing regional groupings. In fact, developing countries successfully opposed the efforts initiated by the industrialised countries for starting negotiations on the issues of investment, competition and trade facilitation. While commenting on the Doha Declaration, WTO Director General Mike Moore said that against the backdrop of disputes and

29 (www.wto.org/english/thewto_e/minute/min96_min98_min99)

discrepancies, the representatives of the WTO member countries have renewed consultations in Doha in an attempt to narrow the gap between their positions.³⁰

The balance between the developing countries could be struck only because of the strategies formulated by countries at their regional forums. Therefore it is not surprising that the common position reached South Asian by India and Pakistan, or that many countries from the African community had a approach on various issues at the Fourth Ministerial Conference. (See: Appendix II)

If we correspond these country positions to various regional preparatory declarations, it is clearly seen that countries have taken positions on the basis of strategies devised at regional level. In fact, in their joint statements various regional groupings “reiterated their concern with the imbalance and lack of clarity contained in the Uruguay Round Agreements and the lack of progress in solving the implementation issues.”³¹ These efforts by regional groupings do not obstruct the process of multilateral negotiations because they are formed within the purview of WTO provisions. On the other hand, without blindly supporting the process of globalisation initiated under the banner of WTO, regionalism helps nation-states in smoothly switching over to the global multilateral trading system.

30 Gustavo Capdevila, “North and South Square off at Doha”, *Asia Times*, November 10, 2001.

31 *Report on trade ministers of COMESA/SADC preparatory meeting to the forth WTO ministerial Conference to be held in Doha, Qatar in November 2001.* (<http://www.comesa.int/news/newsdoha.htm>). Also see *Joint Statement by the SAARC Commerce Ministers on the forthcoming Fourth WTO ministerial conference at Doha, New Delhi, August 23, 2001* (<http://www.wto.org/wt/L/412>).

Conclusion

The rationale behind the regional integration approach of regional groupings with reference to non-trade issues and their strategy formation for the WTO ministerial conferences show the firm commitment of regional groupings to the multilateralism. At the same time, it is emphasised that to maintain the credibility of the multilateral trading system the existing vices in the rules and structures of multilateral institutions should be modified. Formation of regional groupings can give the developing and least developed countries the necessary bargaining power against the powerful blocs like EU and NAFTA.

This analysis shows that today liberalisation through multilateral negotiations is widely accepted in the global political economy. But a large amount of risk and uncertainty is involved in this market driven process of globalisation. At some level, political control for moderating this intense force of globalisation need to be established. New Regionalism provides this intermediate stage by bringing back the territorial content in multilateral negotiations. In this sense, new regionalism provides better approach for the journey from sovereign nation state systems to just and functional multilateralism.

Chapter 5
Conclusion

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The collapse of the cold war has generated many debates about the shape of future world order. There are conflicting viewpoints among scholars about the primacy of politics or economics, the stability of the international system and power poles, and the role of ideology in international politics. All these debates represent the integrated complex of security and development. This post-Cold War characteristic is best represented by the revival of the regionalist versus multilateralist debate.

Economists and political scientists grapple with the question whether regional integration arrangements encourage or discourage a trend towards freer global trade. The emergence of world scale regional arrangements, mainly the EU, NAFTA, APEC, ASEAN, has coincided with the global trade momentum set by the World Trade Organisation, which has made the question even more pressing.

Some suggest that the multilateral framework of international trade regulation is threatened by regionalism. However, others strongly criticise this position, suggesting that the process of regionalisation is complimenting the global multilateral agenda.

It is beyond doubt that the processes of globalisation and regionalisation have acquired new dimensions in the last decade. Globalisation is represented by a more institutionalised structure, in the form of the WTO. In fact,

globalisation has become a complex of various overlapping processes, primarily economic but also political, social and cultural. The acquisition of supra-territorial consciousness is a prominent feature of this globalising complex. On the other hand, regionalism has become more spontaneous and multidimensional. More informal linkages have been established among states at the regional level. Though these linkages are primarily economic in nature, they also involve social, cultural and political interconnections. The formation of regional identity is one of the features of the current regionalisation process.

These new features make three things clear about globalisation and regionalisation –

- both globalization and regionalisation are complex and multidimensional in nature;
- because of overlapping arrangements, globalisation and regionalisation share a dialectical rather than unidimensional relationship;
- together, these two process are undermining the nation state system.

In this changed context the traditional debate, about the impact of regionalism on the global multilateral trading system has become inadequate. This is because both the supporters as well as critics of regionalism –

- insist on only trade related aspects of regionalism and globalism ;
- do not take into consideration the impact of globalisation on regional arrangements; and

- neglect the role of the state in both these processes, as well as their impact on the state.

These limitations of conventional understanding make it necessary to frame new questions for analysing the inter relationship between new regionalism and intense globalisation. In this research, three questions were raised. Firstly, why do states bargain away their sovereignty of the regional level? Secondly, what approach do regional arrangements adopt on non-trade issues? Lastly, to what extent do regional strategies influence state positions in global trade negotiations?

It is clear from our analysis that the regional integration process is purely based on the cost-benefit analysis of nation-states. For acquiring some benefits in relation to globalisation, states share their sovereignty with their neighbours. Regarding non-trade issues, it is observed that states prefer to address security and sustainable development related issues at the regional other than global level. In fact, the regional level is considered as 'manageable' for these issues. On the global forums, States are represented in their individual capacities. But while negotiating globally, especially in the WTO, member states take positions that has articulated at the regional level.

In these linkages between regionalism and globalisation, the interest-based perception of nation states is critical. In these well-calculated processes a lot of politics and hard bargaining is involved. Such a situation minimises the possibility of blind support of nation-states for the globalisation process, at either

the individual or the regional level. But through regional arrangements, states do not try to prevent the multilateral negotiations it self. On the contrary, regional groupings help states to participate in the global trading system. Therefore, it is difficult to say that new regionalism is obstructing the process of globalisation.

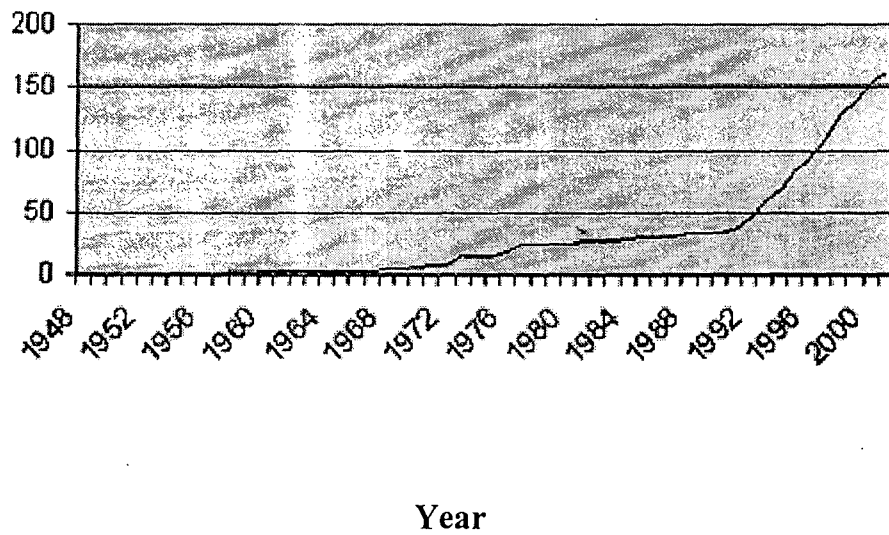
If globalisation is neither promoted nor obstructed by new regionalism, then what kind of impact does the latter have on the process of globalisation? If globalisation is characterised by global consciousness and cultural homogenisation, then new regionalism is a means to retain territorial consciousness and cultural identity while becoming the part of global whole. There is lot a of uncertainty and risk involved in the globalising trends. Regionalism is devised to establish some political control over this uncertainty. Globalisation is not all about prosperity and development but also involves structural inequalities and disadvantages. New regionalism is a conscious strategy of states to gain power for rectifying the deficiencies of global multilateral institutions. In this sense, new regionalism moderates the process of globalisation by minimising risk and deficiency in the prevailing multilateral systems. Thus, new regionalism can be viewed as another path towards a just and functional globalisation.

Appendix

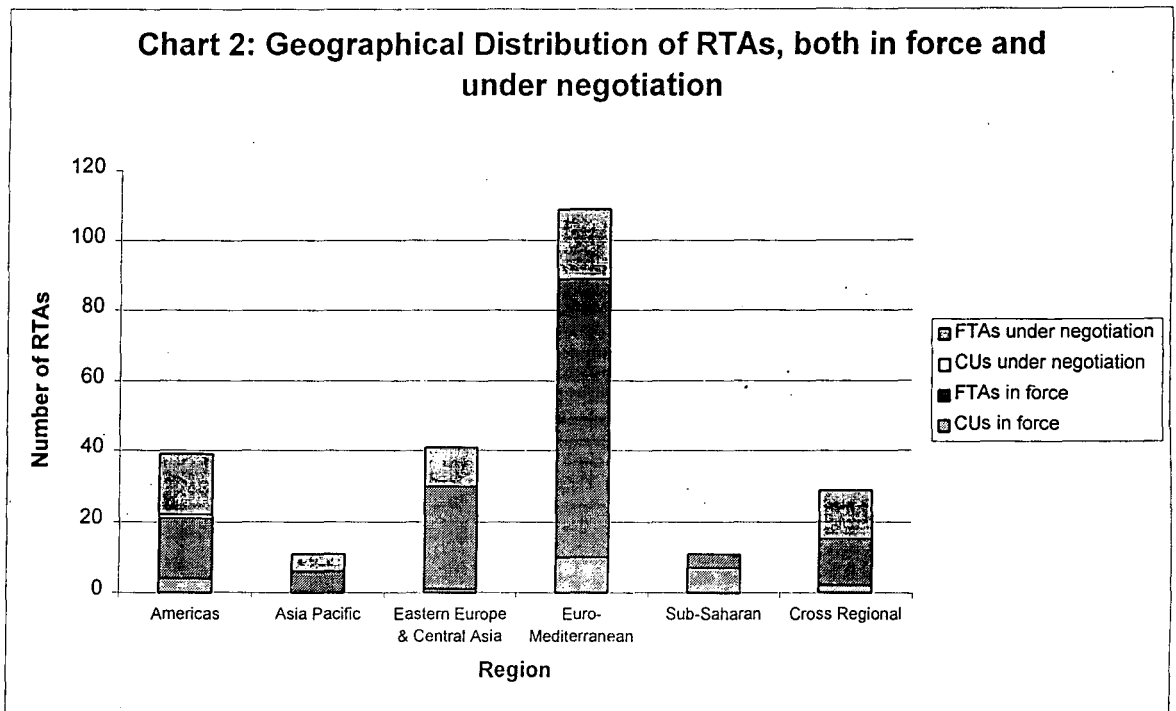
Appendix I

No.
of
RTAs

Chart 1: Regional Trade Agreements (RTAs) date of notification to the GATT/WTO



Source: www.wto.org



Source: www.wto.org

Appendix II

COUNTRY POSITIONS ON DIFFERENT ISSUES AT THE WTO DOHA MEET

Trade and Investment Policy

Background	For	Fence Sitters	Against	State-of-the-Play
<p>A Working Group on Trade and Investment Policy was set up as per the Singapore Ministerial Declaration, 1996 and it is looking into the relationship between trade and investment</p> <p>This decision was adopted after hectic lobbying by EU, and Canada before the Singapore Ministerial. India was left alone at the end of the day. Even Malaysia deserted at the last moment when they got the carrot of ITA</p> <p>In spite of the parallel launch of the MAI at OECD, USA was happy to support it at the WTO</p>	<p>EU Chile Costa Rica S. Korea Japan Morocco Czech Republic Hungary Switzerland Norway</p>	<p>Australia Argentina Brazil Hong Kong Lesotho S. Africa USA</p>	<p>India Malaysia Egypt Pakistan</p>	<p>The Working Group is yet to submit its final report</p> <p>There is little consensus among members on issues which are to be taken up in case negotiations start, while EU is pushing hard</p> <p>Tactically, EU has proposed a plurilateral agreement, with the participation of all WTO members but without any commitment. US will likely support such a move for other trade-offs</p>

Trade and Competition Policy

Background	For	Fence Sitters	Against	State-of-the-Play
<p>A Working Group on Trade and Competition Policy was set up as per the Singapore Ministerial Declaration, 1996 and it is looking into the relationship between trade and competition. South could get in the issue of studying anti-competitive practice also</p> <p>In the run up to the Singapore Ministerial meeting, the EU and Japan pushed for this issue, while USA was uninterested, due to domestic turf problems</p>	<p>EU Japan</p>	<p>USA</p>	<p>India Pakistan</p>	<p>The Working Group is yet to submit its final report</p> <p>Like investment, tactically, EU has proposed a plurilateral agreement, with the participation of all WTO members but without any commitment. US will likely support such a move for other trade-offs</p>

Trade Facilitation

Background	For	Fence Sitters	Against	State-of-the-Play
<p>The Singapore Ministerial Declaration instructed the WTO Council for Trade in Goods to start exploratory and analytical work on trade facilitation</p>	<p>EU Japan USA Switzerland S. Korea</p>		<p>India</p>	<p>The issue is at the background now, but the situation is fluid</p>

Government Procurement

Background	For	Fence Sitters	Against	State-of-the-Play
<p>There is a plurilateral (WTO) agreement on government procurement</p> <p>As per the Singapore Ministerial Declaration, the WTO has set a Working Group, which includes all members, on Transparency in Government Procurement</p>	<p>EU</p> <p>USA</p> <p>Canada</p> <p>Switzerland</p> <p>Singapore</p> <p>Japan</p> <p>S. Korea</p> <p>Israel</p> <p>Liechtenstein</p> <p>Hong Kong</p>	<p>Argentina</p> <p>Australia</p> <p>Bulgaria</p> <p>Czech Republic</p> <p>Chile</p> <p>Colombia</p> <p>Turkey</p> <p>Jordan</p> <p>Poland</p> <p>Panama</p>	<p>India</p>	<p>A potentially contentious area</p> <p>Likely to be a part of the negotiating agenda in case new round starts</p>

Trade and Environment

Background	For	Fence Sitters	Against	State-of-the-Play
<p>The WTO Committee on Trade and Environment (CTE), established at Marrakesh, is discussing a 10-point agenda</p> <p>Northern civil society a strong advocate ever since.</p>	<p>EU</p> <p>USA</p> <p>Canada</p> <p>Japan</p> <p>Norway</p> <p>Switzerland</p>	<p>Australia</p> <p>S. Korea</p>	<p>Many developing countries</p>	<p>Discussions at the CTE are not progressing but EU continues pushing as in the past to incorporate environment in all accords</p>

Trade and Labour Standards

Background	For	Fence Sitters	Against	State-of-the-Play
<p>Ever since the first Ministerial meeting, some developed countries have pushed for a working party on trade and labour standards at the WTO, but that did not materialise due to opposition from others, but the issue has not yet died</p> <p>Many trade unions in both North and South, while mainly Northern NGOs, are big lobbies</p>	<p>USA Canada Norway Sweden* Germany* (*EU members, but are pressing hard within)</p>	<p>EU Argentina</p>	<p>India Pakistan Egypt S. Korea Thailand S. Africa Brazil Hong Kong</p>	<p>There has been some softening of the stance of many of those countries who were pushing hard earlier</p>

New Round

Background	For	Fence Sitters	Against	State-of-the-Play
<p>Some countries want to launch a new round of multilateral trade negotiations during the fourth Ministerial Conference of the WTO to be held at Doha, Qatar in November 2001, while many others are opposing</p> <p>The issue, in the form of a 'millennium round' came up during the third Ministerial meeting of the WTO, held at Seattle, USA in 1999, but there was no progress</p> <p>Another proposal mooted by the UK for a 'development round' which highlighted India's concerns over anti-dumping for instance</p>	<p>EU USA Canada Japan S. Africa Egypt Costa Rica Singapore Hong Kong</p>	<p>APEC (majority) Mexico New Zealand</p>	<p>India Pakistan Malaysia Mauritius Kenya Zambia Botswana Mauritania</p>	<p>The situation is fluid with changing country positions</p> <p>The EU is pushing hard, including consensus building, for a 'comprehensive round' while the US is for a 'limited round'</p>

Source: www.cuts.org (Consumers Unity and Trust Society).

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